

## Modi Proposes Major GST Overhaul to Ease Living Costs

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Prime Minister Narendra Modi has unveiled a sweeping reform of India's Goods and Services Tax (GST), marking the most significant change since the system was launched in 2017. Scheduled to take effect in October 2025, the proposal is aimed at reducing the burden on households while stimulating demand across industries.

At the core of the plan is the removal of the highest 28% GST slab, which currently applies to luxury goods such as large cars, air conditioners, and high-end appliances. In addition, items that fall under the 12% bracket—including many household essentials and smaller cars—will be shifted into the 5% category. According to government estimates, these changes could substantially lower prices for consumers while easing costs for the automotive and consumer durable sectors.

The Finance Ministry projects that the reform could result in an annual revenue shortfall of around \$20 billion. Since GST collections are a vital source of income for both the central and state governments, such losses raise concerns about fiscal stability. The GST Council, which includes representatives from all states, must still approve the plan before implementation. This process is expected to be challenging, as several state finance ministers have already warned that steep tax cuts could widen fiscal deficits and limit resources for welfare schemes and infrastructure projects.

Despite these concerns, the government is presenting the overhaul as a tool to combat inflation and boost household spending. Consumption accounts for nearly 60% of India's GDP, and officials argue that a lighter tax burden will encourage greater demand across sectors. Supporters also note that moderating inflation through tax reductions could provide space for the Reserve Bank of India (RBI) to consider interest rate cuts, potentially spurring credit growth and new investment.

Economists, however, remain divided. Some view the reform as a timely stimulus at a moment when global economic growth is slowing, with India seeking to reinforce its position as a resilient growth engine. Others caution that significant revenue losses could strain government finances and force difficult trade-offs in public spending or borrowing.

The political implications are also significant. Rising costs of food, fuel, and utilities have become a pressing concern for households across India, particularly among middle- and lower-income groups. Cutting GST rates on essentials is expected to resonate with these voters. Analysts suggest the move may strengthen Modi's standing ahead of upcoming elections by directly addressing widespread concerns over inflation.

The reform is also being framed as part of a broader effort to simplify India's tax structure. Since its rollout, GST has often been criticized as complex, with multiple slabs causing compliance burdens for businesses and confusion for consumers. Eliminating the highest

slab and consolidating lower rates could represent a step toward a more streamlined and transparent system.

The final outcome, however, will depend on the deliberations within the GST Council. States are expected to push for compensation mechanisms or a phased rollout to offset potential revenue shocks. How these negotiations play out will determine whether Modi's plan is remembered as a landmark measure that eased living costs and boosted consumption, or as a reform that strained India's federal finances.

For now, the proposal has sparked a national debate on taxation, affordability, and fiscal responsibility. If implemented, the changes would reshape household budgets and India's broader growth trajectory, marking a defining moment in the country's economic policy.